

MINUTES OF BUDGET COMMITTEE MEETING

LANE TRANSIT DISTRICT

ADJOURNED MEETING

May 3, 1989

Pursuant to notice given to *The Register-Guard* for publication on April 13, 1989, and at the April 26, 1989, budget meeting, and distributed to persons on the mailing list of the District, a meeting of the Budget Committee of the Lane Transit District was held at 7:30 p.m. on Wednesday, May 3, 1989, in the Eugene City Hall.

Present:

Board Members

H. Thomas Andersen, Secretary
Janet Calvert, President
Janice Eberly, Vice President
Keith Parks

Appointed Members

Donna Fuess
Robert O'Donnell
Rosemary Pryor, Committee
Chairman, presiding
Roger Smith, Committee
Secretary
John Watkinson

Phyllis Loobey, General Manager
Mark Pangborn, Budget Officer
Jo Sullivan, Recording Secretary

Absent:

Peter Brandt, Treasurer
Gus Pusateri
Richard Smith

Duane Faulhaber
John Hire

CALL TO ORDER: The meeting was called to order at 7:30 p.m. by Ms. Pryor. Mr. Andersen was not yet present at the meeting.

AUDIENCE PARTICIPATION: Ms. Pryor opened the meeting for comments from the audience. There were none.

MOTION
VOTE

APPROVAL OF MINUTES: It was moved and seconded that the minutes of the April 26, 1989, Budget Committee meeting be approved as distributed. The minutes were unanimously approved, with Mr. Andersen not yet present.

CAPITAL IMPROVEMENTS FUND: Mark Pangborn, Director of Administrative Services and Budget Officer, said that because some questions had been asked at the previous meeting about the allocation of some of the resources within the Marketing budget, staff believed it would be appropriate to discuss that

budget in more detail with the Budget Committee. Mr. Andersen would be returning from out of town for the meeting, and had asked that discussion of the Marketing budget be delayed until he arrived. Therefore, Mr. Pangborn began by reviewing the Capital Improvements Fund with the Committee.

Mr. Pangborn explained that the Capital Improvements Program (CIP) is reviewed by the Board in February or March each fiscal year. After Board approval, the CIP is incorporated into the budget, and is then presented to the Budget Committee. There were a couple of changes since the Board approved the CIP, which Mr. Pangborn said would need to be taken back to the Board for approval.

He began with page 2 of the CIP, a summary of the capital improvements budget for the District. He said the Committee had already heard presentations on the current year budget and the proposed budget, and that the third piece of the puzzle was the Capital Improvements Program. The operational budget is the day-to-day budget, and the CIP is another budget which vies with the operational budget for the District's funds. It is actually a separate fund, but is part of the overall District budget.

Mr. Pangborn said that the next five fiscal years are the most important from the staff's perspective; those are the most immediate needs which must be planned for. After that, years are combined in five-year increments in the CIP, for future planning purposes. What is actually included in the budget, however, is the next fiscal year only. Capital improvements are broken into categories, such as office furniture and equipment, computer software and hardware, bus-related maintenance equipment, passenger boarding improvements, and so forth. Mr. Pangborn said he would focus on the three major areas, which were vehicles and accessories (buses), passenger boarding improvements, and service vehicles. He said there was a big expenditure budgeted for next year in order to finish the furniture purchase for the new facility; thereafter, there are some equipment needs, but not many. Computers and software should remain fairly consistent over the next few years, with some money budgeted to buy upgrades to the existing software.

Passenger boarding improvements for the following year included two major expenditures. One was a new capital expenditure, for the Lane Community College station. LTD had received authorization through a State grant to expend up to \$120,000 on improvements to that station. This was not included in the original CIP, so would be taken to the Board at the next meeting. Mr. Pangborn explained that the current station went right through the middle of LCC and had some real problems in terms of safety and time, so staff applied to the State for extra funds to make improvements, and were working with LCC to plan those improvements.

Pads and shelters also included such items as garbage cans and bike racks. Staff had estimated costs for a fairly consistent program over the years to build shelters throughout the community. Shelters had been very well received by the community, especially in the winter. Each shelter costs about \$4,000, and the plan for the next five years was to have a shelter at approximately every third inbound bus stop. Mr. Pangborn explained that

inbound stops are important, because those are the ones where most people are waiting to catch a bus; outbound stops are more often those at which people get off and go directly to another location, such as their homes, so they don't need shelters at those stops.

A Transcom study done for Marketing had shown that bus stop information displays mounted on bus stop signs were seen as very important by riders, so money had been budgeted to add information at additional bus stops. The same study also indicated that the priority of information was reversed on the District's bus stop signs, with the "no parking" notice being the most prominent, and the bus stop information being secondary. Those signs were being redesigned and were to be replaced over a two-year period.

In FY 90-91, \$2.5 million had been budgeted for a new Eugene downtown station, and the City and LTD were beginning discussions about moving the station. Mr. Pangborn stated that staff would like to find a bus transfer station that is off-street, and the City was willing to help in that process. This budgeted amount was at best an estimate, or "guesstimate," he said.

The other major category, revenue vehicles, or buses, was found on page 6 of the CIP. Mr. Pangborn said the District had applied to the federal government for 25 new buses. Ten of those would replace 10 of the oldest buses, and 15 would be used for expansion, to accommodate increased service and ridership. To accommodate increased University of Oregon (UO) ridership, the District had purchased used buses from Tri-Met, but they were expensive to run and were not lift-equipped, so could not be incorporated into regular service.

FIVE-YEAR BUDGET PROJECTIONS: The CIP for the following fiscal year totalled \$5,112,950. To answer the question whether or not the District could afford that, Mr. Pangborn called the Committee's attention to the Five-year Budget Projections section of their budget notebooks. On page 2, a five-year capital projects cash flow chart showed the current year projected and requested, expenses, and federal and local revenues. The net cash balance to be carried over, as well as off-setting federal revenues, were also shown. Mr. Pangborn stated that Section 9 funding had been diminishing over the past five years. Federal Section 3 money was being used for bus purchases, and State Section 18 funds were to be used for the LCC station. Mr. Pangborn explained that federal Sections 3, 9, and 18 funds were federal Urban Mass Transportation Administration (UMTA) grant sources, and could be used for different purposes. Section 9 is formula money, which the District receives every year according to a formula. Section 3 is discretionary and is allocated by the Washington, D.C., UMTA office for projects that meet certain criteria, including fleet expansion and replacement. Section 18 is federal money that goes to the State of Oregon and is passed out to transit districts to serve rural areas. Since LCC is defined as being in a rural area of the county, LTD can use those funds for the LCC improvements, as well as for buses that will operate in the rural areas.

Mr. Pangborn explained that Federal Aid Urban (FAU) money was formula money that came to the State to be used primarily for highways. Lane County

receives 15 percent of the annual allocation, or approximately \$110,000 per year. For several years, LTD had saved its share of the money to be used toward the \$1 million needed for a new downtown station. Section 3 money will also be requested for the new downtown station.

Local resources included the cash balance brought into the CIP at the end of each year, which was expected to be about \$300,000 that year. Annual contributions, \$1,475,082, was determined first by projecting that LTD would put \$846,000 into capital projects, and then adding the additional \$628,000 cash balance for the year. The District started the year with \$299,000 in the CIP, and if the Committee approved the budget as proposed, another \$1.4 million would be added, for a total of \$1,775,000. That amount would be carried into the following fiscal year. Subtracting the anticipated expenses of \$5,112,000 and adding federal revenues of \$2.6 million and local revenues of \$2.7 million would leave a balance of \$311,000, which would be carried over into the next year. Adding what the District should be able to put in as an annual contribution, local cash revenue of \$1 million, and federal revenue of \$2 million, and subtracting total expenses, including the downtown station, would leave approximately \$375,000 to be carried into the third year.

Significant capital expenditures, including the purchase of new buses, were anticipated for the next two years, so the District could be facing a deficit in capital funds. Mr. Pangborn stated that the charts show that on a short-term basis, at least for the next four years, the District should be able to handle fairly significant capital expenditures and still be left with a cash balance. But based on current projections, year five results in a deficit. In terms of realistic budgeting, he said, the Budget Committee needs to be aware of this possibility, but there are so many things that could happen between next year and 1993-94, the District would not necessarily begin making plans for 1993-94 yet. In 90-91 and 91-92, when it is more clear what will be happening with federal funding and service, fuel prices, University enrollment, etc., the District will need to begin planning for that time. Therefore, he said, the CIP is a planning document which shows that the District can manage at least the next two years, and needs to start thinking about what will happen in the next five years or so.

Mr. Andersen asked about the source of the annual contribution for the Capital Projects Fund. Mr. Pangborn discussed the five-year planning document for the operational budget, which included assumptions about what would happen in the community in general, the demand for service, costs, and so forth. The payroll tax for the next fiscal year was left at the current .0049 rate. Expenditures, or the District's costs, included a 4 percent inflationary increase. The Lane Council of Governments (L-COG) projected that population and employment would increase 2 percent. Based on that, staff anticipated an average 2 percent service increase per year for the next five years. However, service increases do not come in actual 2 percent increments; sometimes they are greater and sometimes smaller, depending on the goal of the service increases. For FY 89-90, staff were estimating an increase of .8 percent, with a possible 2.8 percent increase in FY 90-91. This was developed from a fairly detailed service plan that had previously been reviewed by the Board.

A 6 percent increase was assumed for transfers to Risk Management, believing that costs will be greater than inflationary increases. A total of \$200,000 was included in the budget for contingency. Without transfers to capital projects, there was a positive balance, because revenues exceeded expenses, so that balance was allocated to transfers to capital projects. If everything went according to budget, the \$200,000 contingency would also be available, so that would be added to the estimated \$767,000 transfer to capital projects.

Mr. Pangborn said that the District should be able to maintain existing service, add an average 2 percent service increase per year, and still be able to have sufficient funds to transfer to capital projects. The District has some control over expenses, but revenues are somewhat uncertain in future years. In estimating passenger fares, a 4 percent inflationary increase was added to the 2 percent service increase. Payroll tax revenues, which amount to 60 percent of the District's revenues, are beyond the District's control. Staff were assuming that between the current fiscal year and FY 89-90, there would be an 8.2 percent increase in payroll tax revenues. This was a fairly strong estimate, but still less than the current year, which was 11 percent over the previous year. Based on the payroll projection model used by L-COG, it was anticipated that the economy would be strong in FY 89-90 and probably in FY 90-91, and cool off in future years. If the economy remained strong, payroll tax revenues would be higher than anticipated, and there would be more money to transfer to capital projects.

Mr. Pangborn called the Committees attention to a line-item for uncollected payroll taxes, which was the difference between the .49 percent and the .6 percent allowed by state law. The difference was .11 percent, which in FY 89-90 would account for almost \$1.5 million in uncollected tax money; money the District was leaving in the community because it lowered the tax rate several years ago. As the payroll tax base grows, that amount also grows. As a very last resort, the District could use that money to alleviate financial problems or help with capital projects.

There were no further questions from the Committee regarding the Capital Improvements Program or the Five-year Budget Projections at this time.

MARKETING DIVISION BUDGET: Mr. Andersen had arrived at the meeting, so Ms. Loobey re-introduced the discussion on the Marketing budget. She stated that because questions had been raised about the Marketing budget at the last meeting, staff had decided that it would be beneficial to the Committee to hear from staff more about the Marketing function; why it is important to the District, what LTD hopes to get out of it, and why a public agency even does marketing at all. She said this discussion was prompted because the marketing budget projected an increase over last year's budget, which was a decrease over the previous year's budget. Ms. Loobey said there was a reason for that kind of cyclical activity.

In order to set the framework of how budgets are created, Ms. Loobey said that staff spend as much time detailing, analyzing, and forecasting for the individual division budgets as they do for the other parts of the budget, such

as the CIP or the Five-year Projections, based on direction from earlier activities of the Board of Directors. When Goals and Objectives are taken to the Board, they are based on Board direction regarding standards for service and ridership, and are a precursor for the proposed budget each year. From the adopted Goals and Objectives, staff write action plans for their divisions and estimate the costs of completing those action plans to meet the goals of the District. This process is geared toward making the District more productive over time.

Ms. Loobey said that some of the questions raised at the last meeting had more to do with a philosophical point of view about what public service is and how it operates and conducts its business; for instance, whether public service should be judged on profit, the same as private business. Ms. Loobey stated that there is not a profit margin for public service, including the fire, police, and public works departments, as well as transportation. She said there is no transportation district in the world that either makes a profit or pays for itself, but that the most highly subsidized form of transportation in this country is the private automobile. Because so many of the costs for private automobile travel are hidden, however, decision makers and policy makers never really evaluate those total costs in relation to any other costs for transportation. Transit, she said, is part and parcel of everything that goes on, and is a key component to the economic welfare of the Eugene/Springfield area. If a transit district is to be effective, one of the main goals must be to get people out of their automobiles and onto the buses. The automobile business is highly competitive, partly because the American people are so enamored of their automobiles and partly because many of the costs are hidden. Ms. Loobey said that if a farebox could be put in every car, the choice about mass transit versus private transportation would be clearer for many people.

Ms. Loobey said that one of the ways LTD can compete with the private automobile is with the marketing budget, in trying to get the message to the people that here is a safe, dependable, reliable way to travel around town. A comment had been made that about \$.5 million would be spent for marketing, and passenger revenues would be about \$2 million, which seemed out of line. Ms. Loobey said that would be out of line if the District only judged its success on farebox revenue. However, success is judged to a large degree on the number of rides that people take on the system. Ms. Loobey said that judging success on farebox revenues is not a fair assessment, since the service is subsidized and people are not paying the full cost of their trips.

Ms. Loobey stated that LTD would have almost a 16 percent ridership increase within one year, and that during the current fiscal year, ridership would be higher than it was during the 1978-79 gas crisis, even with about 12 percent fewer service hours. What that means, she said, is that the system has become more productive, because there are more passengers for every vehicle hour of service than there were in 1978-79. At that time, people couldn't buy gasoline to operate their cars, and they were forced onto the buses. Now, however, people are riding because they believe that the service is reliable and dependable, and they wish to ride because they have experienced the system and found that the service meets their needs. In order

to accomplish this, the District has to tell them what the service is like, and that is done through marketing. She asked Ed Bergeron, Marketing Administrator, to explain the components of the FY 89-90 Marketing budget and what the District hopes to gain out of that. If LTD were to change direction about what was projected for Marketing costs, she believed the Board would need to review the goals and objectives, which had driven the creation of the Marketing action plan and budget.

Mr. Bergeron first reviewed the Marketing budget development process, which begins with LTD Goals and Objectives and budget projections. Next, a service plan is proposed, based on the results of the Annual Route Review, the Goals and Objectives, and the budget projections. The service plan is then used to develop promotion and pricing plans for the following year. From those, the Marketing action plan is developed, and the costs associated with that action plan are contained in the proposed Marketing budget for the following year.

Mr. Bergeron also reviewed the Marketing division responsibilities, which include advertising; the creation of printed materials, such as timetables and the Rider's Digest; news media; and public relations. Other division responsibilities are coordination with the sales outlets for passes and tokens; ridership promotions to encourage people to ride the bus; market research; and charter services.

A graph was used to show the breakdown of costs for Marketing in relation to the other divisions within the District. Of the total \$10,751,950 District budget, the budget for Marketing was 4.9 percent, compared with 8.4 percent for General Administration; 2.4 percent for Customer Service; 2 percent for Planning, 46.5 percent for Transportation; 23.1 percent for Maintenance; 11 percent for transfers to capital and risk management; and 1.9 percent for contingency. In response to Mr. Brandt's questions at the previous budget meeting, Mr. Bergeron explained that 19 percent of the Marketing budget was programmed for general communications; 13 percent for annual promotions; 12 percent for the fall campaign, to introduce new service and encourage ridership at the beginning of the new school year; 36 percent for communications to riders; 1 percent for accessible services; 4 percent for communications about the facilities; 2 percent for training and development; and 14 percent for administrative support services.

According to a study done in California, those who do not ride the bus invariably rate transit more unfavorably than do users. Mr. Bergeron stated that the role of Marketing at LTD is to bridge that gap; to give non-riders some exposure to the system and encourage them to try the service and become riders. Those who do ride the bus tend to think more highly of bus services, and become regular users.

Another factor in LTD's marketing efforts is the fact that almost 40 percent of the District's riders have been riding a year or less. Of that 40 percent, approximately 20 percent have been riding for six months to a year, and 19 percent have been riding less than six months. This means that each

year, the District potentially loses 40 percent of its riders, and needs to replace them, or ridership and productivity decrease.

In summary, Mr. Bergeron stated four main purposes for the Marketing function at LTD: to replace lost riders; to increase the ridership of current riders; to communicate service details; and to educate the community about transit's value and benefit.

Ms. Eberly asked how often the District's advertising agency is reviewed. She stated that she believed the current agency did a good job, but that she thought that contract should be reviewed periodically. Mr. Bergeron replied that a complete review was conducted in 1987, and that the District operates its advertising program on a contract requiring annual reviews with extensions allowed to a maximum three-year term. The next complete review and RFP process was due to occur in 1990. Mr. Bergeron told Ms. Eberly he would provide copies of the contract and the review process for her after the meeting.

BUDGET COMMITTEE ACTION:

MOTION **Approval of Fiscal Year 1988-89 Supplemental Budget:** It was moved and seconded that the Supplemental Budget for Fiscal Year 1988-89, as presented at the April 26, 1989, meeting and detailed in the Budget Message section of the budget packet, be approved for adoption by the full Board. With no VOTE further discussion, the Supplemental Budget was approved by unanimous vote.

MOTION **Approval of Fiscal Year 1989-90 Proposed Budget:** It was moved and seconded that the proposed budget for Fiscal Year 1989-90 be approved as VOTE presented for adoption by the full Board. The motion carried by unanimous vote.

ADJOURNMENT: Mr. Pangborn stated that staff would contact the Committee in November or December regarding the need for a mid-year budget meeting. With no further business to discuss, the Budget Committee meeting was unanimously adjourned.

Budget Committee Secretary